

EQUITY PLAN – TAXATION TREATMENT

As a result of the current government ownership limits in Telstra shares, the ability for Telstra to offer options under conventional option schemes has been limited.

Telstra has not to date established option schemes for its IT personnel. Based on current trends, the existing employee share scheme arrangements for options may create some limits in the future on our ability to:

- reward particularly IT personnel by virtue of the Australian employee share scheme regime being regarded as being more limited than those overseas; and
- reward IT personnel (particularly in the existing management teams) of new IT ventures in which we invest, for example, as a result of the limitation on the percentage of ownership which a particular employee under an employee share scheme may be entitled.

While acknowledging the potential benefits of the current proposed concessionary capital gains tax rules for individuals, if these changes were reflected in the employee share scheme provisions this would provide equivalent tax treatment for participants in those schemes, and thereby a more favour environment to offer competitive equity arrangements.